

## Message Text

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ACTION ARA-14

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NSC-05 SP-02 SS-15 CIAE-00 INR-07 NSAE-00 DODE-00  
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FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 2114  
INFO AMEMBASSY PARIS  
AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 4700

E.O. 11652: GDS  
TAGS: EAIR, ETRD, BR  
SUBJECT: DECISION ON PRODUCTION OF HELICOPTERS IN BRAZIL

FOLLOWING MESSAGE PREPARED BY AMCONSUL RIO DE JANEIRO

SUMMARY: CONGEN RIO OFFICER MET WITH BRAZILIAN REPRESENTATIVE OF UNITED TECHNOLOGIES INTERNATIONAL (SIKORSKY) AND BELL HELICOPTERS TO LEARN THEIR VIEW OF LATEST DEVELOPMENTS REGARDING GOB CONSIDERATION OF HELICOPTER PRODUCTION IN BRAZIL. BELL HAS SUBMITTED LETTER OF INTENT (CARTA CONSULTA) TO CONSELHO DO DESENVOLVIMENTO INDUSTRIAL (CDI). FAVORABLE DECISION ON AEROSPATIALE PROPOSAL IS MUCH LIKELIER THAN HAD PREVIOUSLY BEEN EXPECTED. IF AEROSPATIALE'S DETAILED PROPOSAL IS EVENTUALLY ACCEPTED, OUTCOME IS LIKELY TO RESEMBLE EMBRAER-PIPER VENTURE IN THAT ALL COMPETITION WILL EFFECTIVELY BE EXCLUDED FROM THE BRAZILIAN MARKET. END SUMMARY.

1. BACKGROUND: APPROXIMATELY SIX YEARS AGO, AEROSPATIALE, FRENCH AIRCRAFT MANUFACTURING FIRM, SUBMITTED LETTER OF INTENT OUTLINING A JOINT VENTURE PROPOSAL TO THE BRAZILIAN GOVERNMENT FOR THE ASSEMBLY AND EVENTUAL MANUFACTURE OF HELICOPTERS HERE. ABOUT  
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TWO YEARS AGO, A DETAILED JOINT VENTURE WAS SUBMITTED WHICH INCLUDED AEROSPATIALE'S "LAMA" AND "SQUIRREL" MODELS. ONE YEAR LATER, CDI (GOB AGENCY WHICH DECIDES GOB INDUSTRIAL-PROJECT INCENTIVES) FORWARDED AEROSPATIALE'S PROPOSAL TO AIR MINISTRY, AND TO THE EMBRAMEC, SUB-FUND OF THE BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO. THE LATTER WILL HOLD 45 PERCENT EQUITY IN THE JOINT VENTURE CORPORATION. FOR THE PAST YEAR, AEROSPATIALE

HAS BEEN NEGOTIATING WITH THESE TWO GOB BODIES.

2. DURING JUNE 2 MEETING WITH PARTNER IN BRAZILIAN FIRM, POWERPACK, BRAZILIAN FIRM WHICH REPRESENTS SIKORSKY PARENT FIRM, UNITED TECHNOLOGIES INTERNATIONAL, CONGEN OFFICER WAS TOLD THAT AERO-SPATIALE HAS ACQUIESCED TO ALL OF EMBRAMEC'S OBJECTIONS REGARDING PROPOSED JOINT VENTURE. THUS, EMBRAMEC HAS NO GROUNDS FOR DELAYING FURTHER AEROSPATIALE'S PROPOSAL. POWERPACK'S HIGHLY-PLACED EMBRAMEC SOURCE HAS SAID THAT EMBRAMEC COULD NOT DELAY ANY FURTHER ITS APPROVAL OF THE AEROSPATIALE PROPOSAL. EMBRAMEC SOURCE FURTHER STATED THAT CDI RECONSIDERATION AND APPROVAL WOULD PROBABLY COME SOMETIME IN JULY.

3. AGAIN ACCORDING TO POWERPACK'S EMBRAMEC SOURCE, THE AERO-SPATIALE EMBRAMEC/CRUZEIRO AEROFOTO (A SUBSIDIARY OF THE VARIG-OWNED AIRLINE CRUZEIRO DO SUL) JOINT VENTURE EQUITY WILL BE DIVIDED 45 PERCENT, 45 PERCENT AND 10 PERCENT RESPECTIVELY. OTHER DETAILS OF THE FINAL AGREEMENT COMMIT AEROSPATIALE TO A 5 YEAR PRODUCTION GUARANTEE AND A GUARANTEED RETURN TO EMBRAMEC. IN ADDITION, AEROSPATIALE WILL MOVE PRODUCTION OF ITS "LAMA" AND "SQUIRREL" MODELS TO BRAZIL. SOME EXPORT SALES FOR THESE MODELS ARE ALSO GUARANTEED UNDER THE AGREEMENT.

4. DURING JUNE 3 MEETING WITH BELL HELICOPTER'S BRAZILIAN REPRESENTATIVE, MOTORAVIA, SUBSTANCE OF POWERPACK'S REPORT WAS CONFORMED. BELL REP ALSO STATED THAT A "LETTER OF INTENT TO ASSEMBLE/MANUFACTURE BELL HELICOPTERS IN BRAZIL WAS SUBMITTED TO CDI LAST WEEK." BELL REP WENT ON TO SAY THAT BELL, AND SOME GOB OFFICIALS, HAVE SERIOUS MISGIVINGS ABOUT NEAR TO MEDIUM CONFIDENTIAL

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TERM STRENGTH OF BRAZILIAN HELICOPTER MARKET. BELL SUBMITTED ITS LETTER OF INTENT SIMPLY TO AVOID BEING EFFECTIVELY EXCLUDED FROM BRAZILIAN MARKET.

5. COMMENT: IF THE AEROSPATIALE DEAL IS CONCLUDED AS OUTLINED BY POWERPACK AND MOTORAVIA, MOST IF NOT ALL OF THE BRAZILIAN HELICOPTER MARKET WILL BE LOST TO US FIRMS. IT IS LIKELY THAT IMPORT BARRIERS (MAINLY, NON-ISSUANCE OF IMPORT LICENSES) SIMILAR TO THOSE ERECTED AGAINST GENERAL AVIATION AIRCRAFT WOULD BE IMPOSED ON THE IMPORT OF HELICOPTERS. TO DATE, BELL IS THE ONLY US FIRM TO SUBMIT AN ASSEMBLY/MANUFACTURING LETTER OF INTENT. HOWEVER, UTI (SIKORSKY) IS SERIOUSLY CONSIDERING SUBMITTING SUCH A LETTER. OUR IMPRESSION IS THAT THE PURPOSE OF UTI'S LETTER WILL ALSO BE TO HEAD OFF THE FRENCH RATHER THAN FROM ANY STRONG DESIRE TO PRODUCE HELICOPTERS IN BRAZIL. THIS SKEPTICISM (WHICH BELL SHARES) IS BASED PARTLY ON DOUBTS AS TO THE ADEQUACY OF THE BRAZILIAN MARKET, IN THE SHORT TO MEDIUM TERM, TO ABSORB EVEN THE OUTPUT OF AN ASSEMBLY OPERATION. CONGEN RIO CONTACTS WITH THE AIR MINISTRY AND ITS CENTRO TECNICO AEROSPATIALE

(AIRSPACE TECHNICAL CENTER -- CTA -- WHICH WAS GODFATHER OF THE EMBRAER LIGHT-AIRCRAFT VENTURE) SUGGEST THAT CTA HAS ITS OWN DOUBTS AS TO THE CURRENT VIABILITY OF A HELICOPTER VENTURE. THUS, DESPITE ALL THE CURRENT ACTIVITY, IT IS POSSIBLE THAT THE MULTIPLE PROPOSALS MAY YET BE REJECTED BY THE AIR MINISTRY. ON THE OTHER HAND, THE AEROSPATIALE PROPOSAL, IF OUR INFORMATION IS CORRECT, MAY APPEAR TOO GOOD TO TURN DOWN. END COMMENT.

6. ALL RECIPIENTS PLEASE NOTE EXTREME SENSITIVITY OF PROPRIETARY INFORMATION CONTAINED IN THIS REPORT. CRIMMINS

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## Message Attributes

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SUMMARY: CONGEN RIO OFFICER MET WITH BRAZILIAN REP  
**TAGS:** EAIR, ETRD, BR, BELL HELICOPTER, UNITED TECHNOLOGIES INTL  
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